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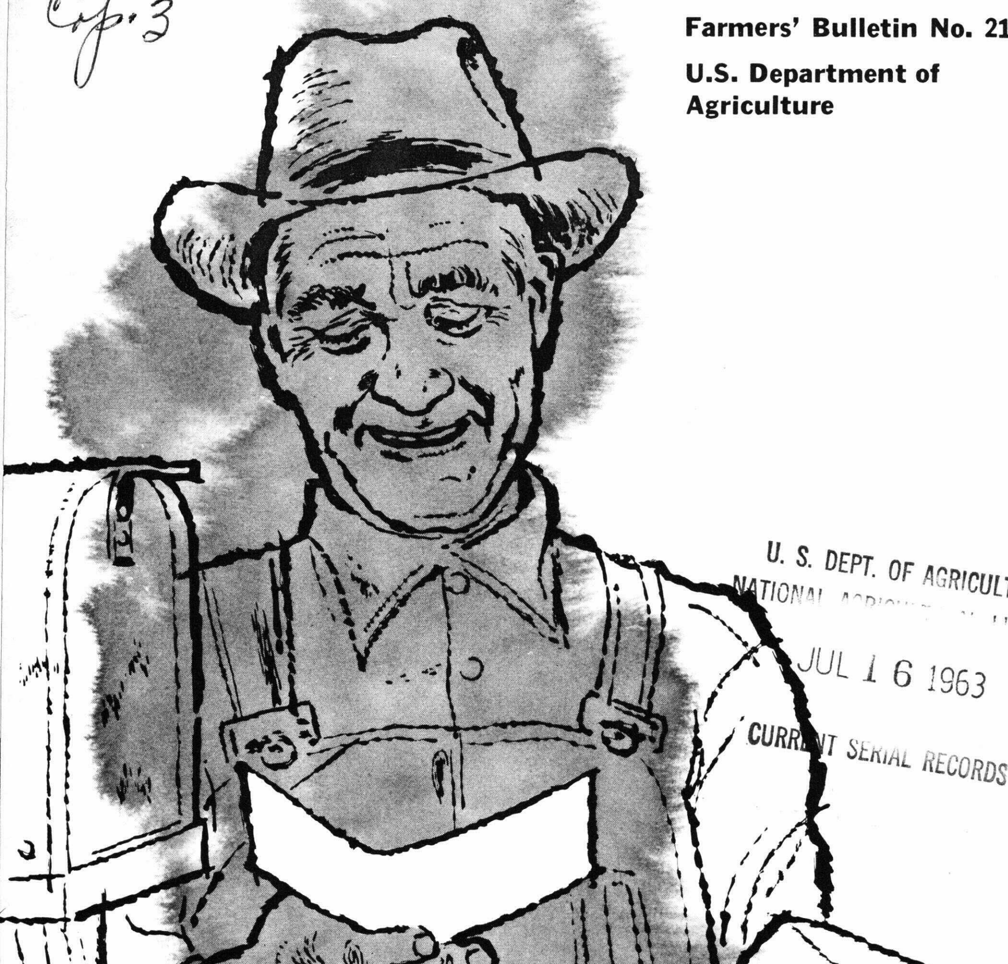

INSURANCE FACTS FOR FARMERS

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INSURANCE FACTS FOR FARMERS

By Ralph R. Botts, Farm Economics Division, Economic Research Service

Insurance is the means of providing protection against the risk of financial loss.

One man alone cannot well provide this protection, because losses cannot be predicted as well for one person as for a group. An insurance contract, therefore, works on the principle that the losses of a few persons are shared by many.

Regular payments (called premiums or assessments) are accumulated, and payments of claims are made from this fund. The amount an insured person pays is calculated on the basis of the risk as measured by statistics. For example, suppose experience has shown that, on the average, there will be a $5 loss per $1,000 of fire insurance each year in a certain area. If insurance for $4,000 is written on a $5,000 house in this area, the loss cost or "pure premium" would be $0.005 \times \$4{,}000$, or $20. If the company is to break even, it will have to charge at least $20 each year, and to cover expenses, it would have to add a small extra amount.

The total of these two figures—the pure premium plus the amount for expenses—would be the gross premium listed in the agent's rate book. Calculations for the actual rate for insurance are not usually this simple, because many other factors may influence the probability of loss. Basically, however, this is the principle that is used.

WHEN TO INSURE

Insurance is particularly desirable if the loss is likely to be large. The need usually depends on individual family circumstances. For a family living close to poverty, even a small loss may be a disaster. Naturally, those who cannot stand a loss should insure against it. Often they are the very ones who feel they cannot afford to pay the premiums.

Saving money "for a rainy day" is merely the building up of a self-insurance fund. Too often, however, the risk is not recognized and there is no regular effort to insure. Savings alone may not be sufficient to meet the loss, and the loss may occur before the right amount has been saved. A good plan is to bank some savings even while paying insurance premiums. Later on, the savings may be large enough to justify carrying some of the smaller risks on the self-insurance plan.

WHAT TO INSURE

Fire, liability, and life insurance are the most important types of coverage for farm families. It may be well to insure against windstorm and hail damage in some areas.

Most farmers probably have some savings to tide them over during periods of illness. Or, with the help of the family or neighbors, they may be able to continue selling eggs or milk for income. Therefore, they have less need for accident or disability-income insurance than urban dwellers do.

If a farmer owns his farm outright, he probably has little need for buying endowment insurance. Many farmers rent their farms when they are too old to work, and then live off the rent. Others sell their farms and live off the proceeds or buy annuities with the money.

FIRE AND WINDSTORM INSURANCE

A fire insurance policy is an extremely important contract to a farm owner. It gives protection against fire and lightning, both of which are hazards that can cause serious financial loss. Most companies will extend this protection to cover other hazards upon payment of an additional premium. They do this by adding a supplementary agreement, called a "rider" or "endorsement." A standard policy contract is used in most States.

The most common rider is the "extended coverage" endorsement. It provides insurance against damage from vehicles, explosions, riots, smoke, aircraft. Usually this rider includes protection against windstorm and hail damage for city property. Many companies include these hazards for farm property coverage, except crops, for which separate coverage is necessary. This extended coverage is always issued for the same amount as mentioned in the main policy. The cost is about half the cost of the fire policy. A few assessment companies operated by farmers include windstorm damage along with fire and lightning. No separate payment is charged.

Most commercial companies also offer windstorm and hail damage policies on farm property, other than crops, separately from fire insurance. The rate is usually about 90 or 95 percent of that charged for extended coverage. The reason is that the other five hazards do not strike as often. Also, most insurance payments under 7-point extended coverage result from windstorm or hail losses.

Another common endorsement covers household contents if the dwelling has already been insured by the same company. Another is a permit that allows the insured family to be away from the insured property longer than the time specified in the main policy. Actually, any small changes in the contract are handled by adding an endorsement to the policy. An example is extending the term of insurance from 1 to 3 years by paying the difference in premium.

Fire insurance premiums or assessments may be paid yearly, but if the premiums are paid in advance, most commercial companies give 5 years of insurance for 4.4 times the yearly cost. In a few States the savings may be greater. In most States the larger companies also allow installment pay-

A farm fire can be a spectacular affair—but a costly one. Fire insurance pays you for any loss up to the amount of insurance carried.

ments on a 5-year policy. One-fifth of the premium is payable in cash when the policy is delivered; the other four-fifths is payable in equal payments each year for 4 years. No interest is charged on the installments, but the total premium payable for the 5-year period is about 4.6 times the premium on an annual policy. Three-year term policies are also available at comparable savings.

Regardless of how the premiums are paid, a mutual company pays its declared profits back to its policyholders in the form of dividends at the end of the contract period.

FARMERS' MUTUAL INSURANCE COMPANIES

Nearly 1,700 farmers' mutual fire insurance companies in the United States offer relatively low-cost fire insurance on farm property. Most of these companies are located in the northern half of the United States. About one-third of them also offer windstorm insurance. These mutuals are usually local; that is, they do business in only a few counties. Practically all of them inspect properties before they write a policy. This precaution lowers their cost per $100 of insurance.

These companies are assessment mutuals. This means that, if necessary, members can be assessed an extra amount to meet unusual losses in any year. Most of them, however, have built up strong reserves by charging somewhat more than cost. These reserves are used instead of extra assessments.

There is more chance for an extra assessment when a mutual company offers windstorm or crop-hail insurance in a limited area. Here, there is a greater chance of widespread loss. Therefore, windstorm and crop-hail mutual companies usually do business over a wider area and build up larger reserves per $100 of insurance.

Windstorm insurance can be obtained in some States from mutual companies that write windstorm policies only. These specialized companies are particularly important in some Midwestern States, where they have on their books a large part of all the windstorm insurance carried by farmers in these States. Such companies do business in much the same way as the fire mutual. The principal difference is that, because of the nature of the risk, they usually operate throughout a State or even in several States.

LOSS PAYMENT

Most insurance companies pay all losses up to the amount stated in the policy. When a fire or a windstorm occurs, a sensible farmer protects his property from further damage as well as he can, and then notifies his company—usually by telephone. The company will ask him to furnish, within a certain number of days, a "proof of loss," or a statement describing the damages.

Four factors may keep a farmer from getting full payment when he files claim for fire damage:

1. His property has been vacant beyond a specified period—usually 60 days.
2. The risk has been increased. Examples: Storing gasoline in the basement, running a stovepipe through a partition without notifying the company, or operating a corn drier without a permit from the company.
3. Taking out additional fire insurance from a second company without notifying the first company.
4. Title to the property has been changed or a mortgage has been placed on it without notifying the company.

In all forms of property insurance, the company is allowed to pay the actual amount of the loss; that is, not more than it would cost to

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A windstorm can do a lot of damage in a short time.

repair or replace the property less any depreciation. The payment never exceeds the amount stated in the policy.

RATES

Commercial rates for fire and windstorm insurance depend on the use made of the building and the type of roof covering. Rates for dwellings depend also on the type of wall construction (frame, brick, stucco). The type of wall is the only factor considered in silo insurance. Dwelling contents ordinarily take the dwelling rate; barn contents usually take the barn rate.

Each State uses a different set of rates. The rate schedule is prepared by the State Rating and Inspection Bureau and is based on the experience of its member companies. These rates must be approved by the State insurance commissioner. A company may file rate changes with the State insurance commissioner and use them when they have been approved.

About three-fourths of the farm mutual companies still charge all

members the same rate, regardless of the classes of property insured. In recent years, however, classified rates have become more common. Classified rates measure more accurately the probability of loss and thus make the rates more fair. Example: Under the classified rate system, a farmer who has paid out money for fire-resistant construction, or who has installed lightning rods or other fire-protection equipment, receives some monetary reward for his efforts.

Generally, farm mutuals write their insurance for a 3- or 5-year period, but assessments for paying losses are levied each year that they are necessary. It is usually not necessary for such companies to submit their rates to a State insurance commissioner for approval.

DEDUCTIBLE CLAUSES

Since many losses from windstorm damage are small, some companies insert a "minimum-loss" clause in the policy. Example: Under a $50 minimum-loss clause the insurance company would pay nothing if the damage were $49, but would pay a $50 claim or a larger one in full.

Some companies use a deductible clause under which the specified deductible amount is subtracted from all claims, regardless of the amount. Example: Under a $50 deductible clause, that amount would be deducted from a $75 claim and the insurance company would pay only $25. It would pay nothing if the claim were for $50 or less.

If either of these claim-reduction clauses is used, the rate is reduced. Therefore, a farmer who keeps his buildings in good repair is likely to be in favor of them.

CROP-HAIL INSURANCE

Crop-hail insurance may be obtained from many stock and mutual fire insurance companies and, in some States, from specialized crop-hail mutual insurance companies. Farmers in North Dakota, Colorado, and Montana may also obtain crop-hail insurance from State-operated hail departments.

This insurance costs a stated sum per crop acre. Rates vary from 2 percent or less up to 15 percent or more of the total coverage. Rates depend on how easily the crop may be damaged. This factor, in turn, depends on crop maturity dates in relation to the hail season, and the probability of hail in the area. Rates vary, therefore, by areas and by crops.

A farmer cannot save money by obtaining crop-hail insurance late in the season, because there is usually no reduction in rate. But in areas where crop yields are highly variable, farmers often wait to see if the crop is worth insuring. The loss payable is the amount of insurance multiplied by the percentage of damage. Damage percentage is determined by sampling methods that are agreeable to both parties.

Deductible clauses are used in crop-hail insurance, but the minimum loss is figured on a percentage basis. Example: Under a 10-percent deductible clause, there would be no payment for hail damage if the insured crop received only 9 or 10 percent damage. But if the damage amounted to 20 percent, the company would deduct 10 percent and then pay the remaining 10 percent of the amount of the insurance stated in the policy.

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Hail destroyed this field of corn. A crop-hail insurance policy would cover part of the loss.

FEDERAL CROP INSURANCE

Federal crop insurance provides "all-risk" crop investment insurance. It does not insure profit for the farmer or cover avoidable losses such as those caused by neglect or poor farming practices. Legislation limits the maximum level of coverage to the cost of producing the crop in the area.

In 1962 it was sold on one or more crops in 995 counties: Wheat, 534 counties; corn, 337; soybeans, 323; tobacco, 191; cotton, 161; barley, 138; oats, 86; flax, 82; grain sorghum, 27; combination crops (1 contract), 26; beans, 25; tree fruits (citrus and peaches), 18; raisins, 7; rice, 6; peanuts, 4; potatoes, 1; and peas, 1. About 2 crops per county were insured (1967 county programs divided by 995).

Federal crop insurance guarantees the farmer an amount per acre that is about equal to his cash expenses. Although some quality protection is included in the insurance, there is no price guarantee. Insurance for tree crops covers such specific risks as wind and freeze; for raisins it covers rain damage during drying. Citrus losses are settled on the basis of percent of damage to fruit. Premiums collected from farmers are expected to balance payments to them over a period

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of years. Cost of administering the program is borne by the Government.

Information on this type of insurance may be obtained from the county crop insurance office or from the county agricultural agent.

LIABILITY INSURANCE

Liability insurance gives protection to the insured against his legal liability for death or injury to another person, or damage to the property of another. It pays any court judgment (up to the limits of the policy) that might be obtained by someone who brought suit because of an accident.

A farmer could lose his farm or his life's savings to satisfy a judgment resulting from a liability claim. Although the risk may seem small, the amount of money involved could be large. For this reason, the risk should be covered by insurance.

A man must be proved liable before a judgment can be rendered against him in court. But it is usually inconvenient and expensive for a person to defend himself in a lawsuit. A person who has liability insurance will be defended in court by his insurance company. The company also pays court costs and any judgment up to the amount stated in the liability policy.

Liability policies usually include medical payments to the injured party, regardless of who is responsible for the accident.

Several types of liability insurance are available.

AUTOMOBILE AND TRUCK

Three common kinds of automobile and truck liability insurance are (1) bodily injury, (2) property damage, and (3) medical reimbursement.

Bodily injury liability insurance protects you financially if you or a member of your family injures someone while operating your vehicle.

Property damage insurance protects you financially if you or a member of your family damages someone's automobile or other property. Most policies also offer protection if you are driving a borrowed car, or if you loan your car to a friend.

Medical reimbursement insurance pays for any medical, dental, hospital, nursing, or funeral expenses incurred as the result of an auto or truck accident involving the insured vehicle. The coverage applies to the owner, his family, and other passengers. Payments are often made even though the owner is not responsible for the accident.

Property damage insurance usually cannot be obtained without the bodily injury coverage. Most companies, however, offer the latter without the former. The liability insurance term "10/20/5" means that the policy protects the insured person against damages up to $10,000 for injury to one person, or up to $20,000 for injury to two or more persons, and up to $5,000 for property damage. Bodily injury limits may be increased by paying a small additional premium. This is usually recommended.

Automobile and truck liability insurance is perhaps the most necessary "third party" insurance for farmers. It safeguards property and assets and satisfies all State laws about automobile responsibility. Most States now require a vehicle operator to show evidence of financial responsibility after an accident. If he cannot, he may lose

his license plates or driver's license, or plates and license, until the case is closed. In a few States, automobile liability insurance is necessary in order to get license plates.

Statistics show that 95 percent of the court cases involving injury result in damages being paid to the injured person.

Liability insurance can be obtained on a tractor by purchasing a separate policy, or by requesting extended coverage on an existing policy for a car or truck. Tractor insurance is desirable if the vehicle is used to any extent on highways.

COMPREHENSIVE PERSONAL LIABILITY

Stock and mutual casualty insurance companies offer a farmers' comprehensive personal liability policy. This type of policy protects a farmer who is sued by the general public for damages resulting from an accident for which he might be liable. For example, such a policy protects a farmer against suit from injury caused by his dog or other animals, or by personal acts of the farmer or members of his family while on or off the farm. For an extra premium, this policy can be extended to cover farm laborers, or they may be insured under a separate employer's liability policy.

FARMOWNER'S POLICY

So-called "package" policies that include personal liability protection (except on motor vehicles) and coverage against fire, lightning, and extended-coverage perils are now widely available from commercial companies. Extended - coverage perils include wind and hail damage to property other than growing crops and motor vehicles.

Sometimes personal property is also covered against theft and minor hazards, such as damage to farm machinery from overturn and collision and loss of livestock from electrocution.

A deductible may apply to losses from some of the perils. A farmer who wants all of the protection provided by a package policy should compare its cost with that for comparable coverages under separate policies.

EMPLOYER'S LIABILITY

Employer's liability insurance protects the employer if he is sued by an employee who is injured while at work. An injured employee must show negligence by, or the responsibility of, a farmer before the insurance company will pay the claim. Insurance payments to injured employees often are made only after the court has awarded a judgment against the farmer. From the farmer's standpoint, this type of policy provides protection about equal to that provided by workmen's compensation insurance.

WORKMEN'S COMPENSATION

Workmen's compensation insurance assures the employee that he will receive certain "benefits" or payments if he is injured and if he agrees not to sue his employer. These benefits are established by law. This type of insurance protects the farmer against claims or court awards arising from injury to hired help. It usually costs very little more than straight employer's liability insurance, but in

addition it carries benefits for the worker.

It is generally believed that this "double-acting" protection is the best type of insurance for a farmer and an industrial employer. The question of who was negligent is not considered by insurance companies in making settlements.

Except under certain conditions in a few States, farmers are not required to take workmen's compensation insurance. In Alabama, farmers cannot take it. In Nevada, North Dakota, Ohio, Oregon, Washington, West Virginia, and Wyoming the insurance may be obtained only from a State-operated insurance company.

This type of insurance is offered by private insurance companies and by State companies in the following States: Arizona, California, Colorado, Idaho, Maryland, Michigan, Montana, New York, Oklahoma, Pennsylvania, and Utah.

In the remaining States, the insurance can be obtained only from private companies.

Premiums for workmen's compensation insurance average about 3½ percent of the payroll. The average minimum charge is about $53 a year. Therefore, unless a farmer has a payroll of about $1,514, his insurance would cost more than 3½ percent of the wages he pays. If board and lodging are furnished, they are included as part of the payroll. State-operated companies do not always charge a minimum premium.

Farmers in any State may obtain insurance similar to workmen's compensation from private companies. It is in the form of a "voluntary compensation endorsement" to an employer's liability policy. It should be understood that the benefit payable to an injured employee must be paid in full by the company. The amount of the payment depends on the extent of the injury. The company will protect the farmer if his injured employee refuses the benefits and decides to sue him instead.

One advantage of the voluntary compensation arrangement is that a farmer may insure only some of his employees if he prefers. But if he chooses to insure his employees under his State's compensation act, he will have to insure all of his employees.

LIFE INSURANCE

Life insurance differs from other forms of insurance in that the event insured against (death) is certain. Only the time of it is uncertain. The likelihood increases year by year. The probability of death is measured by mortality tables. Rates depend on age and are more exact than in other forms of insurance.

Even though death rates increase with age, the company can calculate a "level" or average premium that each policyholder in any group should pay each year. So that this premium will be enough to pay claims later on—when everyone has grown older—it must be more than is actually necessary to pay the claims in the first years of the policy. The excess in these early years is accumulated with interest, and is used to pay claims later when the premium is no longer enough to meet the claims at the higher death rates. These "extra" payments make up what is called a "legal" reserve. These payments and the method of investing them until they are needed are governed by State law.

These reserves also partly explain why policies have cash-

surrender values. The company merely pays back the excess—with interest—by which it has been overpaid in earlier years. The amount of "savings" included with the protection also helps to decide the cash-surrender value.

Many different types of life insurance policies are available. Each is designed to fill a particular need and purpose.

TYPES OF POLICIES

Term insurance

When a policy provides protection for a fixed number of years—usually 5, 10, 15, or 20—it is called term insurance. This is the cheapest form of insurance because no savings are included in the premium.

Ordinary life

A policy requiring premium payments for life is called an ordinary life policy. The premium always remains the same, and the insured person pays it each year as long as he lives. The cash-surrender value increases each year.

Limited-pay life

A limited-pay life policy provides protection for life, but it is paid for over a certain number of years, usually 20 or 30. The premium includes enough savings so that by the end of that time, the interest on the money will carry the policy. Other forms of limited-pay life policies are those that are paid up at some future age—for example, one that is paid up at age 65 or at age 85. One of these policies permits the insured person to pay for his whole life protection in full, before he reaches extreme old age.

Endowment

An endowment policy promises to pay a stated amount to the insured if he survives the term of the policy (20 years for a 20-year endowment policy), or to the beneficiary if the insured dies within the term.

Enough savings are included in endowment insurance, along with the cost of the protection, so that by the end of the specified time the value of the policy will have been accumulated. When it is paid to the insured person, the contract has been fulfilled. There is no more insurance. In endowment insurance, the policyholder is charged only for the amount of insurance that is actually necessary each year to make up the difference between his accumulated savings and the face amount of his policy. If, at death, the savings were paid in addition to the face amount, a much higher premium would be necessary.

Some farmers may find it more profitable to put their extra money back into their farms, rather than into savings policies. The extent to which savings and protection are mingled in endowment insurance is illustrated when the "pure-premium" cost of a 20-year endowment policy, taken out at age 35, is divided into its two parts. About three-fourths of the annual premium goes into savings; only one-fourth pays for protection.

Family income

Some policies combine two or more of the basic policies described

above. When term insurance in decreasing amounts is combined with ordinary life insurance, the contract is called a "family income" policy. At the death of the insured it pays a monthly income to his widow or other beneficiary for the rest of the income period originally selected. In addition, it pays the face amount of the policy (usually the amount of the ordinary life insurance) at the end of that time. As the time during which the payments would continue is constantly diminishing, there is less protection later on than at first.

The family income policy is particularly useful for paying off a debt by regular installments. The amount of the term insurance can be geared closely to the balances due later on a mortgage. Therefore, the cost for the minimum protection needed is kept as low as possible.

Family Policy

Under this policy all members of a family are insured under a single contract. Usually the head of the family is insured under an ordinary-life plan, and convertible term insurance is applied to the wife and children. The cost per $1,000 is the same regardless of number of children; additions to the family are included 15 days after birth.

Usually policies can be obtained in units ranging from $5,000 to $15,000 on the life of the father; insurance on each dependent is about one-fifth of the unit bought. Amount of premium is based on age of the father and face amount of the policy. A waiver of premiums is often included; it goes into effect upon the death of the father, usually called the "insured."

This insurance operates somewhat like a miniature group policy. It has proved popular.

Group life

Many purchasing and marketing cooperative organizations have arranged for group life insurance for their members. In each instance, the cooperative usually has returns or savings to distribute to its members, and the insurance premiums are subtracted from them and paid to the life insurance company.

No physical examination is required for group life insurance. It covers death from all causes, and usually members of all ages are insured. An older member usually does not receive the same amount of insurance as a younger member for the same dollar volume of merchandise bought through the cooperative.

When a purchasing cooperative wants to adopt such a group life insurance plan, the insurance company asks it to send in a list of its members with their addresses, and the amount of their individual purchases during the previous year. Claims paid by the company are based on the purchases given on this list. At the end of each policy year, if the mortality experience has been in the company's favor financially, a part of the premium is returned to the cooperative.

WHICH KIND TO USE

Most heads of families need some life insurance. How much and what kind depends on family circumstances.

The ordinary life insurance policy is usually the best for someone who is most interested in leaving

something to his heirs and who has other ways of investing his money.

A 20-payment life or other limited-payment kind of policy is used by one who wants to pay up his insurance in full before he becomes old or before his earning power decreases. Premiums are higher than for the ordinary-life policy, although the death benefits are the same. Savings are greater, and the cash-surrender values are built up faster. This means that in an emergency more can be borrowed on a limited-pay life policy than on an ordinary-life policy, if both are taken out at the same age and are for the same amount. Since the loan privilege is part of the contract, the insurance company can be used like an emergency bank. Banks will usually loan up to the full cash-surrender value of a policy. They merely accept the policy as security under an assignment, which is canceled when the loan is repaid.

An endowment policy costs more than an ordinary life policy or a 20-payment life policy because it combines protection for a certain term of years with investment. Endowment insurance is a good choice for a salaried man who does not have many safe ways of investing his savings or who finds it hard to save money. It is often used to accumulate funds to send a child to college. But it is probably better to place the insurance on the father's life instead of the child's, particularly if the family needs insurance against loss of income if the breadwinner should die.

Remember that the cash value of any policy and the proceeds of an endowment policy are payable to the person insured—even if the insured is a minor. For example, if the insurance is on a son, even though the father has been paying premiums, any cash value or proceeds from the policy would be payable to the son. If the father wants to cash the insurance company's check, he must first get his son to endorse it over to him.

Term insurance lays stress on protection and is the cheapest form of insurance for a short time. It is useful if a person needs a lot of protection for just a few years.

As one example: If a man owes a balance on his farm and wants to leave it free of debt to his wife in case he dies, he needs term insurance for the amount of the mortgage or at least the major part of it. Term insurance should be the *renewable* type, which means it can be renewed (of course at the higher rate for the later age) regardless of the state of his health at that time. If it is also *convertible* it can be changed over to other insurance without a medical examination, but of course will require higher premiums.

Suppose you want insurance to pay off a debt in case you should die. If the debt is being reduced by regular payments, you can try to fit 5-year term insurance to the amortization schedule as closely as possible. If the outstanding principal is now $5,000, you will need that much 5-year term insurance. If in 5 years the balance will be $3,000, you can renew your insurance at that time for that amount. The renewable feature is almost necessary with term insurance. You may feel that the family-income policy is even better for you if you also need the ordinary life insurance with which it is combined.

SOME POLICY PROVISIONS

Perhaps the two most important provisions of a life insurance policy relate to (1) the disposition to be made of the cash surrender value if the policy is dropped and (2) how the money from the policy will be paid by the company if the insured person dies.

The reserve created by paying a level annual premium may be considered as a credit to individual policyholders that may be recovered if their policies are dropped.

This credit (often called the nonforfeiture value of a policy) is the amount of the reserve minus a small surrender charge necessary to cover expenses. Except for term insurance, the longer a policy runs, the greater its cash-surrender value is. Of course no such value is left in an endowment policy after its face amount has been paid to the insured person. Any amount up to the cash-surrender value may be borrowed, at interest, from the company.

If a policy is dropped after it has run for 3 years, or sometimes 2 years, it will have a cash value. This value may be taken as a lump sum, or it may be used to buy insurance. Three ways of getting this value as insurance are (1) as paid-up insurance for a reduced amount, (2) as extended-term insurance, and (3) as a premium loan.

The other important group of provisions in standard policies relates to the methods of settlement. Most policies permit the insured to choose (1) the lump-sum payment of the face amount of the policy upon the death of the insured person, or (2) settlements that guarantee an income, or (3) a combination of the two. If one of these settlements is chosen by the insured person, he may change it while he lives. His choice cannot be changed by the beneficiary after the insured person dies. But if he has not selected a monthly income settlement, his widow or other beneficiary may choose one at the proper time instead of the lump-sum payment. An insurance company makes no direct charge for this service.

The choices are also available to an insured person who lives to see his endowment policy mature and who wants to receive the face value plus interest as a retirement income. Or he may let it accumulate at interest for payment later as a lump sum or in installments to his beneficiary. The choices are also available with some limitations to those who cash their policies for their surrender value.

Ask your insurance agent to help you choose the settlement arrangement that best fits your circumstances.

ANNUITIES

Everyone wants security against the time when he or she will be too old to work, because there is always the chance of outliving our savings. Since a person cannot predict when he will die, he does not want to spend more than the interest on his money if he can help it. He doesn't want to be left without anything. An insurance company can pay him interest on his money and can return to him part of his principal as well. If he lives longer than the average, this loss will be offset by the gain on others who die before their principal has been returned to them.

IMMEDIATE ANNUITY

An immediate annuity is one that is paid for in a lump sum. It cannot be bought "on time," because the payments by the company begin at once and are made monthly or yearly. It may be on one life or on two or more lives. These immediate annuities are designed for older people who have had time to accumulate enough savings to buy them. Under a joint life and survivorship immediate annuity, the payments to the survivor are the same as when both annuitants were alive. Of course where two lives are involved, an annuity costs more than one that calls for the same payments on one life. A joint life and two-thirds survivorship annuity is one that pays the survivor only two-thirds as much as was paid while both annuitants were living.

Immediate annuities, whether on single or joint lives, may also be classified as life annuities or refund annuities. A life annuity is one that pays no refund if the annuitant (or annuitants) dies early. A given purchase price will buy a somewhat smaller monthly income as a refund annuity than as a life annuity, because under the former the balance of the purchase price is returned to the annuitant's estate if he dies early. (Term insurance in decreasing amounts is included in the purchase price.) Anyone who is thinking of buying this kind of annuity should be particularly careful as to whether annuity payments stop at death or continue for a guaranteed period. Many annuity buyers select the refund-type rather than a life annuity, even though they could get more retirement income the other way.

DEFERRED ANNUITY

Deferred annuities, sometimes called retirement annuities, are usually sold to younger people. They are paid for during the working years, but the annuity payments begin at some selected future retirement age. In the meantime, the installments earn interest as savings. Because the benefits start in the future, there is plenty of time to change the type of contract if this is desired. If death comes before the retirement age, the principal is paid back with interest. There is no agent's commission to pay when the conversion to an immediate annuity is made at the retirement age.

SURVIVORSHIP ANNUITY

Under the survivorship annuity plan, an insured person pays the premium during the joint lifetime of himself and his beneficiary. Immediately upon his death, a regular income is paid to the beneficiary (annuitant) during his or her lifetime. If the beneficiary dies first, the contract is canceled without refund. It amounts to life insurance with a chance to choose in advance a monthly income settlement for the beneficiary.

This kind of annuity is useful to the person who has a much older person depending on him for a living. Its cost is relatively low because the chance is that the beneficiary will die considerably before the insured person or not long afterward. Since a survivorship annuity is really life insurance, a medical examination is required of the person to be insured but not of the beneficiary. No medical examination is required with a straight annuity.

SOCIAL SECURITY

A law that went into effect on January 1, 1955, and was amended in 1956, 1958, and 1961, brought Federal old-age and survivor insurance to most farm families. Previously, farm operators—those who farm for themselves—had not been covered by social security. Under the amended law, practically all farmers who make as much as $400 profit in a year come under social security. Farm employees who worked regularly for one farm operator were already covered. Now farmworkers are covered who receive as much as $150 cash pay in a year from one employer or who receive wages for 20 or more days of farmwork from one employer, or who are paid on a time basis for farmwork performed for an employer on 20 or more days during the calendar year, whether or not the work is regular. For each $100 he is paid, the worker earns one quarter-year of coverage. He can earn only 4 quarters of coverage in 1 year.

Net farm income or cash wages count toward social security benefits—as monthly payments in old age (if the farmer is 62 or over), as monthly payments to the worker and his dependents if he is totally disabled and has reached age 50, and as monthly payments to survivors in case of the farmer's death. Some examples of the kinds and amounts of these monthly payments are given in table 1.

A farmer who has retired on social security may still earn up to $1,200 a year from any kind of employment or self-employment without affecting his social security payments. But $1 is withheld for each $2 earned over $1,200 up to $1,700, and $1 is withheld for each $1 earned over $1,700. After he is 72, he may accept the checks regardless of the amount of his earnings.

TABLE 1.—*Family benefits payable monthly under social security*

Average monthly earnings [1]	Retirement at age 62 [2]		Survivors		
	Worker's benefit	Worker and wife	Widow, parent, or child	Widow and one child	Widow and two children
	(1)	(2)	(3)	(4)	(5)
$67 or less	$32. 00	$47. 00	$40. 00	$60. 00	$60. 00
100	47. 20	69. 40	48. 70	88. 60	88. 50
150	58. 40	85. 80	60. 30	109. 60	120. 00
200	67. 20	98. 70	69. 30	126. 00	161. 70
250	76. 00	111. 70	78. 40	142. 60	202. 50
300	84. 00	123. 40	86. 70	157. 60	236. 40
350	92. 80	136. 30	95. 70	174. 00	254. 10
400 or more	101. 60	149. 30	104. 80	190. 60	254. 10

[1] After drop-out of up to 5 years of lowest (or no) earnings.

[2] A farmer retiring after age 62 would receive more than the amount shown as applicable to him in column (1). And if his wife is then past 62 their combined income would be more than the figure for them shown in column (2).

TABLE 2.—*Alternative methods of reporting income for social security*

If your gross farm income is—	And your net farm earnings are—	You may report for social security [1]—	
		Regular method	Optional method [2]
Less than $600	Less than $400	Nothing	Nothing.
Less than $600	$400 to $599	Actual net	Do.
$600 to $1,800	Less than $400	Nothing	Two-thirds of gross.
$600 to $1,800	$400 to $1, 800	Actual net	Do.
Over $1,800	Less than $400	Nothing	$1,200.
Over $1,800	$400 to $1, 199	Actual net	$1,200.
Over $1,800	$1, 200 and over	do	Actual net.

[1] This assumes you have no other earnings from self-employment.
[2] Option may be used for one year and not the next. If used, it must be applied to all the income from your farm or farms. May be used to increase *or decrease* your net farm earnings. May be used even if you operated at a loss.

HOW IT WORKS

Farmworkers pay a social security tax on their cash pay and their employers match the amount of the worker's tax. For wages paid in 1962, both the employer and employee will have to pay 3⅛ percent of the cash pay up to $4,800. For wages paid 1963–65, the rate will be increased to 3⅝ percent. The farm employer sends the total amount to his District Director of Internal Revenue, along with a report of the wages and social security account number of each employee.

Self-employed farm operators also pay a social security tax on their net farm earnings. For 1962 it will be 4.7 percent of net earnings up to $4,800; during 1963–65 it will be 5.4 percent. For net earnings of less than $400 a year, no social security tax is due and no social security credit is given.

If you are a self-employed farm operator

Farm operators report their earnings and pay their social security tax once a year when they file their Federal income tax returns. Schedule F, Schedule of Farm Income and Expenses, is provided for use with Form 1040, U.S. Individual Tax Return, for figuring and reporting your net farm income. Schedule SE attached to Schedule F is provided for reporting your self-employment income so that it may be credited to your social security account. It is important that you show your social security account number on your Schedule SE, as that number identifies your individual account and makes it possible to credit your account correctly. Your social security benefits are figured from this account.

The amount you report is your net farm profit, after you subtract your farm expenses from your gross farm income. Optional methods of figuring the amount to report are provided where the gross farm income is not more than $1,800 or the net farm earnings are less than $1,200. The available alternatives are summarized in table 2.

If you rent or lease land to someone else and, in accordance with a

rental agreement with the renter or lessee, participate materially in the management of operations, the rentals you receive may be counted as self-employment income. Even share tenants are now counted as self-employed. But in case of doubt, get in touch with your nearest internal revenue or social security office.

If you do farmwork for others

If, in 1 year, you receive cash pay of $150 or more from one farm employer, or if you receive wages for farmwork performed on 20 days or more for one farm employer, you must have a social security card. If you have never had one, or if you have had one but lost it, get in touch with your nearest social security office. They will give you a card without charge. Show it to the person you work for. He will copy the name and number from it for his records. He deducts your share of the social security tax from your wages. Then he adds the same amount for his share of the tax, and sends the total to the District Director of Internal Revenue with his social security report. This report must show your *name and number* to assure your getting the proper credit toward benefits.

Payments to you in any form other than cash do not count for social security purposes. If your cash pay from farmwork for one employer is less than $150 for the year and you do not work for him on 20 or more days in the year, he does not report your earnings and there is no social security tax. For example, if you earn $75 in a year from one employer and another $75 from a second employer, none of these wages would count toward social security. But if you earn $150 from one and $150 from the other, both employers will report your earnings and you will get credit for the total.

YOUR RIGHT TO BENEFITS

To be eligible for old-age insurance payments, or for your family to be eligible for payments in case of your death, you must have worked under social security for a certain period of time, depending on the date you reach age 62 or die.

In general, people who came under the law *for the first time* in 1955 would be insured after they had worked under it for a year and a half. After this period of 1½ years, such people stay insured if they remain in work covered by the law. After September 1958, however, they need only one-half year of work under the law for each year that passes. After a person gets 10 years of work under the law, he is permanently insured. If you already have some social security credit, your earnings and quarters of coverage under the new law will be added to it.

When a farmer retires and becomes entitled to benefits, his wife also may be entitled to benefits at age 62. Moreover, benefits are available to totally disabled insured workers and their dependents after the worker reaches age 50, provided the worker had social security credit for at least 5 of the 10 years before he became disabled.

To claim benefits or to get more information, get in touch with your nearest social security office.

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